



Tax Credits for Solar Equipment

The federal Energy Policy Act of 2005 allows a credit for solar water heating equipment, products that generate electricity from solar energy ("photovoltaics"), and fiber optic solar lighting (Energy Policy Act 2005, Section 1336 and Section 1337). South Carolina law allows a credit for solar equipment for heating water, space heating, air cooling, or the generation of electricity in or on a facility in South Carolina and owned by the taxpayer (Act No. 386, 2006 and Act No. 83, 2007).

What is covered?

FEDERAL

- Individual taxpayers can take a federal tax credit equal to 30% of the price paid for purchase and installation of solar water heating equipment and solar photovoltaic equipment. This is equipment that uses solar panels and other hardware to generate electricity for use within the house. **This credit expires after December 31, 2008.**
- The purchase price of solar panels and other solar equipment that also serves as a structural component of the roof can be included as part of the federal tax credit, as well as installation costs for labor and hardware (piping, wiring, etc.) used in setting up the solar system.

STATE

- An individual or business can take a state income tax credit equal to 25% of the costs of solar equipment per facility which may be used for heating water, space heating, air cooling, or the generation of electricity in or on a facility in South Carolina and owned by the taxpayer.
- The credit also applies to controls, tanks, pumps, heat exchangers, and other equipment used directly and exclusively for the solar energy system. The term 'system' does not include any land or structural elements of the building such as walls and roofs or other features ordinarily contained in the structure.

Maximum credit allowed

- The maximum federal tax credit for a business is 30% of the total cost of the solar system. However, deductions to the credit could apply in certain situations. To see a complete list, refer to the Solar Energy Industries Association, *Guide to Federal Tax Incentives for Solar Energy*.

- The maximum federal tax credit for an individual is:
 - \$2,000 for solar water heating equipment, and
 - \$2,000 for solar electricity (photovoltaic) equipment.
- The maximum state tax credit for an individual or business is equal to 25% of the costs of installing a solar system equal to \$3,500 or fifty percent of the taxpayer's tax liability for that taxable year, whichever is less. If the amount of the credit exceeds \$3,500 for each facility, the taxpayer may carry forward the excess for up to ten years for a maximum of \$35,000.

Take Note!

- For both the state and federal tax credit, the solar water heating equipment must be certified for performance by the Solar Rating Certification Corporation, or an equivalent organization approved by the South Carolina Energy Office.
- For a residential application to qualify for a federal tax credit, the energy saving product must be installed in the taxpayer's *primary residence*. This means that a taxpayer cannot take a tax credit for products installed in a rental home, for example. For houses that are jointly occupied, there are special rules on how to allocate the tax credit.
- No federal tax credit is allowed for purchase and installation of solar equipment for heating water for swimming pools and hot tubs.
- The state tax credit must not be claimed before the installation is completed.
- Be sure to save those receipts that show where and when the product was purchased and how much was paid. Save any promotional literature that warrants that the product is eligible for a tax credit.

How Now?

- You must use IRS Form 1040 to claim the federal credit. Enter energy tax credits on Line 52. To calculate the correct amount, use IRS Form 5695. This Form includes the steps to calculate the tax credits discussed in this Fact Sheet, and also other energy savings tax credits for the purchase of energy saving property (windows, insulation, etc.).
- To claim the state credit you must attach tax form TC-38 to your income tax return.

Disclaimer: This information is not intended to provide advice on legal interpretations of the law. This information should not be relied upon in taking or refraining from taking any action related to the topics covered. The best source of information is guidance provided by the Internal Revenue Service and the South Carolina Department of Revenue.